

CONSULTING PROJECT:

ARIZONA-MEXICO SUPPLY CHAIN LANDSCAPE ANALYSIS: A NEARSHORING STUDY



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PROJECT GOAL:

IDENTIFY MEXICAN OWNED COMPANIES IN THE MAG REGION, COMPANIES IN THE MAG REGION ENGAGING IN TRADE WITH MEXICO, COMPANIES IN MEXICO ENGAGING IN TRADE WITH THE MAG REGION, AND THE CURRENT TRADING (EXPORTS/IMPORTS) BEING DONE BY THESE INDUSTRIES.

IDENTIFY ECONOMIC DEVELOPMENT OPPORTUNITIES BASED ON THESE INDUSTRIES AND TRADING TRENDS.





PROJECT PHASES:

- **PHASE 1: EARLY STAGE – RESEARCH & ANALYSIS**
- **PHASE 2: MID STAGE – IN-DEPTH RESEARCH, ANALYSIS & PRELIMINARY FINDINGS**
- **PHASE 3: FINAL STAGE – ANALYSIS RESULTS, FINAL RECOMMENDATIONS**
- **FINAL DELIVERABLE: APRIL 30TH REPORT**

FINDINGS FOR FACILITATING OPPORTUNITY:

- **PARTNERSHIPS BETWEEN CITIES/STATES**
- **REINVESTMENT IN BORDER/PORTS**
- **INCENTIVES TO ATTRACT BUSINESSES**





FINDINGS FOR FACILITATING GROWTH:

- **INTERACTIVE SUPPLIER DATABASE**
- **CROSS-BORDER PARTNERSHIPS**
- **AEROSPACE / AUTOMOTIVE / METAL STAMPING**



Baja California

(Baja California, Baja California Sur)



Northern Mexico

(Chihuahua, Coahuila, Durango, Nuevo León, Sinaloa, **Sonora**, Tamaulipas)



The Bajío

(Aguascalientes, Guanajuato, Zacatecas, San Luis Potosi, Querétaro)



Central Mexico

(Hidalgo, Mexico City, Mexico State, Morelos, Puebla, Tlaxcala, Veracruz)



Pacific Coast

(Chiapas, Colima, Guerrero, Jalisco, Michoacan, Nayarit, Oaxaca)



Yucatan Peninsula

(Campeche, Quintana Roo, Tabasco, Yucatán)



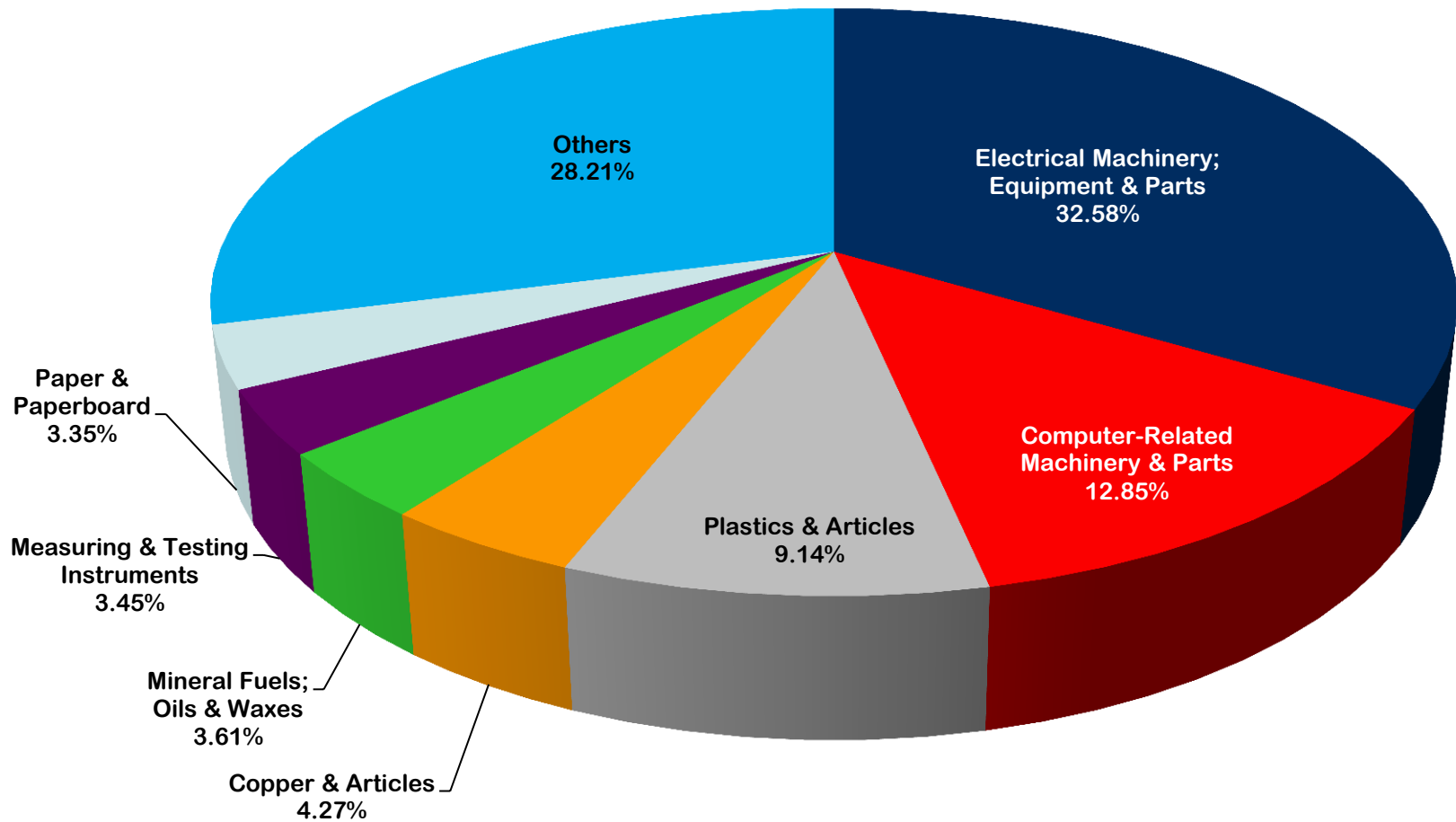
THUNDERBIRD
SCHOOL OF GLOBAL MANAGEMENT



- **Population:** 114.8 Million (UN, 2011)
- **Main Exports:** Machinery and transport equipment, mineral fuels and lubricants, food and live animals
- **Gross Domestic Product:** \$1.657 Trillion (2011 est.)

Percentage of AZ **Exports** to MX

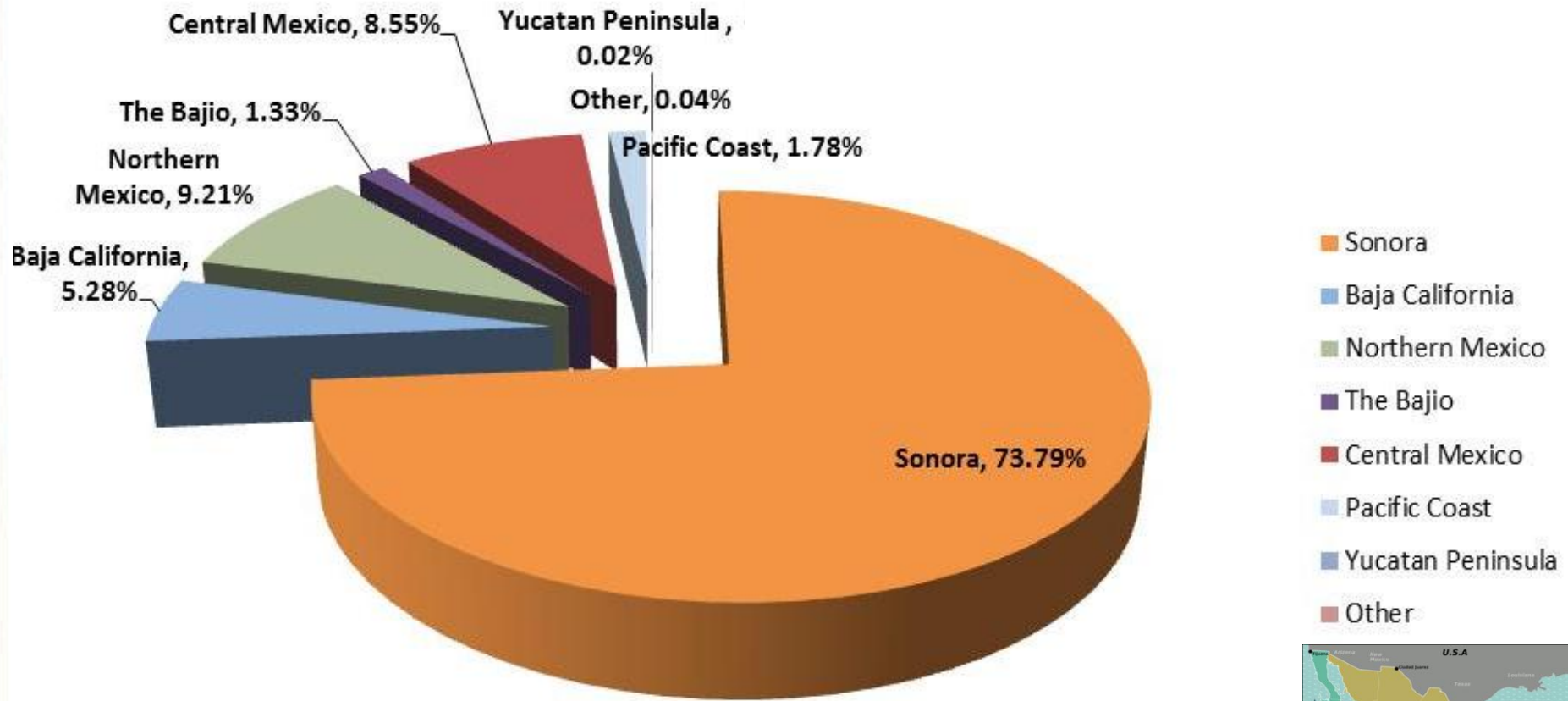
2010: By Commodity - Total \$5.05 Billion



Source: U.S. Department of Transportation, Bureau of Transportation Statistics, Transborder Surface Freight Data.

Percentage of **Exports** from AZ to MX

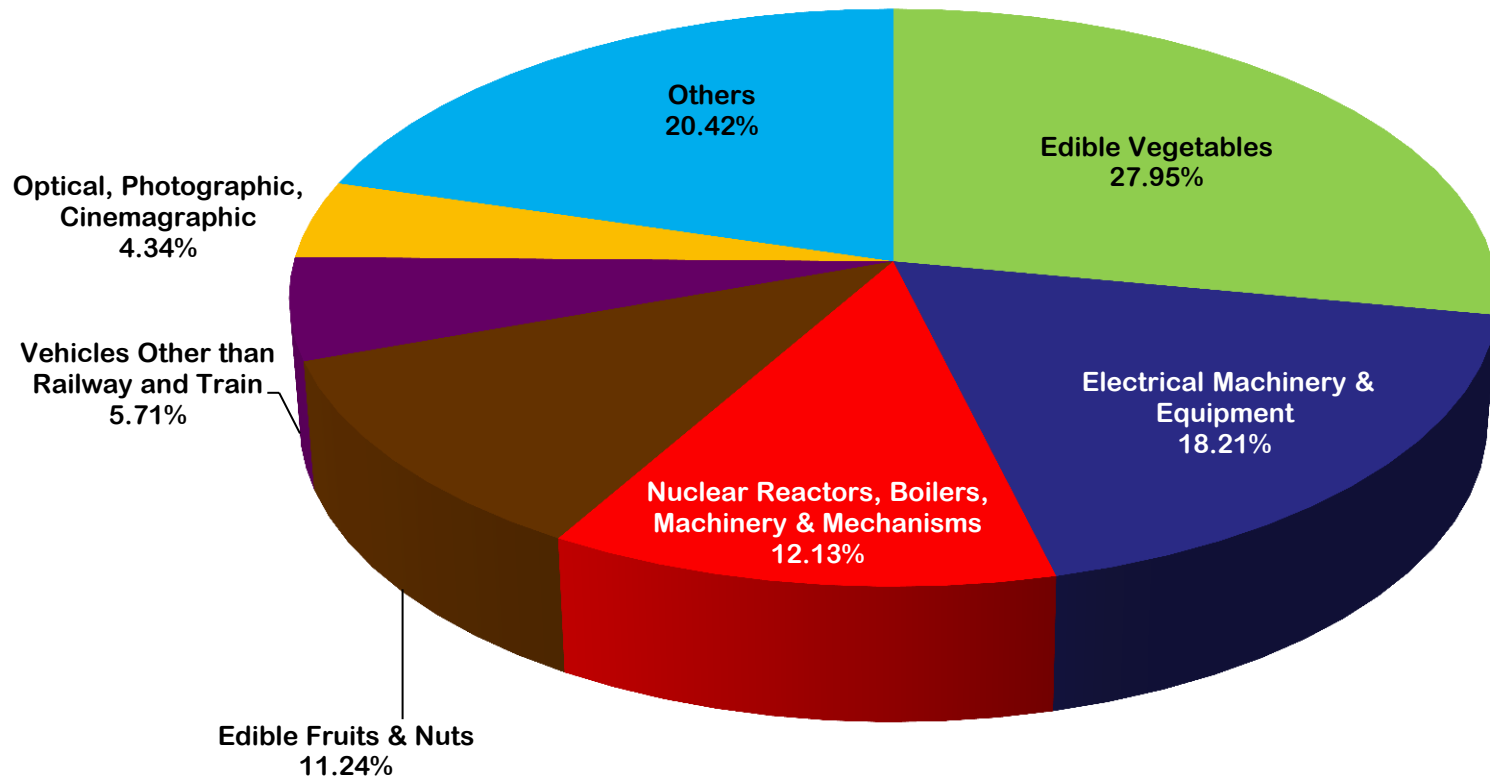
2011: By Region - Total \$5.05 Billion



Source: U.S. Department of Transportation, Bureau of Transportation Statistics, Transborder Surface Freight Data.



Percentage of MX **Imports** to AZ in 2010: By Commodity - Total \$5.63 Billion



Source: U.S. Department of Transportation, Bureau of Transportation Statistics, Transborder Surface Freight Data.

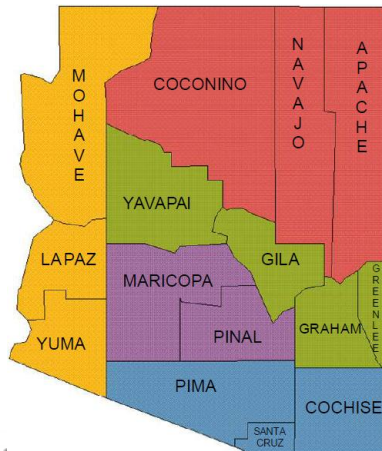
MEXICO'S IMPORTANCE TO AZ



Top Origin Markets for International Travelers to the U.S. (2010 vs. 2009 & 2008)

| Origin of Visitor | 2010 (mill) | 10/09 (% change) | 10/08 (% change) |
|-------------------|----------------|---------------------|---------------------|
| 1 Canada | 20.0 | 11% | 6% |
| 2 Mexico | 13.4 | 2% | -3% |
| Overseas | 26.4 | 4% | 4% |
| 3 United Kingdom | 3.9 | -1% | -16% |
| 4 Japan | 3.4 | 16% | 4% |
| 5 Germany | 1.7 | 2% | -3% |

**Mexican visitors spent
\$2.65 Billion in AZ
from July'07 to June'08.**



Arizona All Tourism Economic Impact by County

| County | Direct Traveler Spending | Jobs Generated | Earnings Generated | Taxes Generated |
|----------|-----------------------------|-------------------|-----------------------|--------------------|
| Maricopa | \$11.2 B | 82,910 | \$3.1 B | \$679.8M |
| Pima | \$2.0 B | 21,520 | \$509.0 M | \$124.1 M |
| Coconino | \$974.8 M | 10,500 | \$265.5 M | 67.0 M |
| Yavapai | \$648.3 M | 7,650 | \$170.4 M | \$37.4 M |
| Yuma | \$565.7 M | 5,770 | \$139.9 M | \$36.3 M |



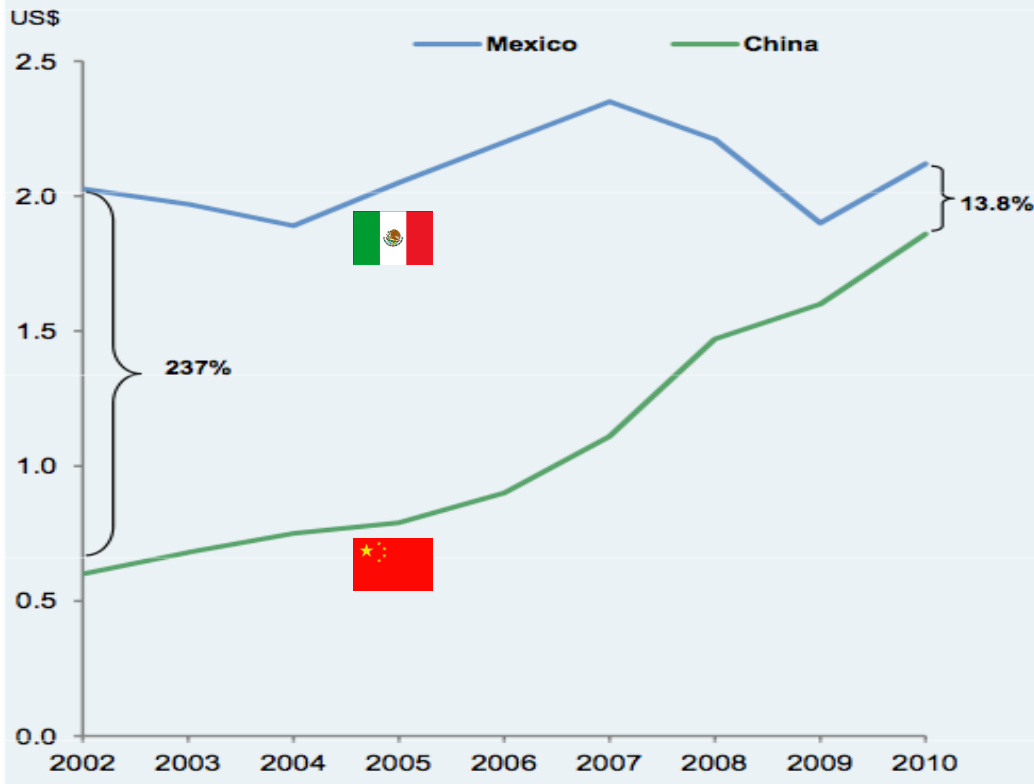
Source: Office of Travel and Tourism Industries
– US Department of Commerce



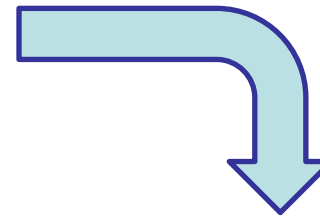
Source: University of Arizona , Mexican
Visitors to Arizona: Visitor Characteristics
and Economic Impacts, 2007-08

WHY MEXICO IS GROWING

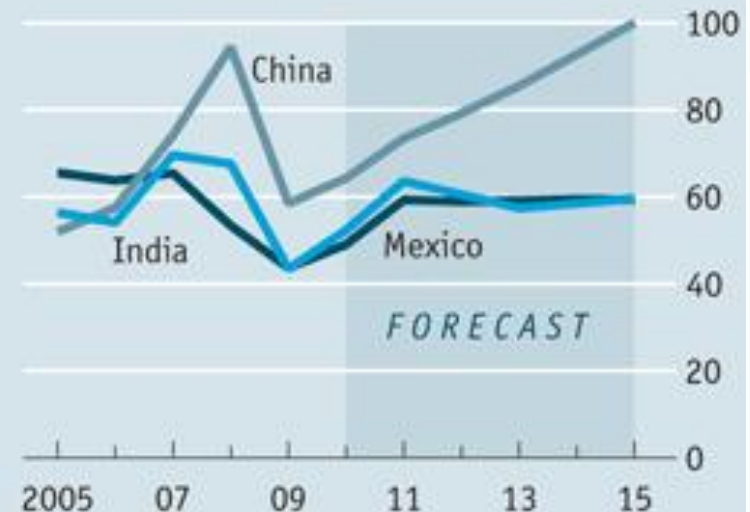
Wages in the manufacturing sector



Source: Ministry of Finance



Manufacturing Outsourcing Cost Index % of US cost



Source: AlixPartners



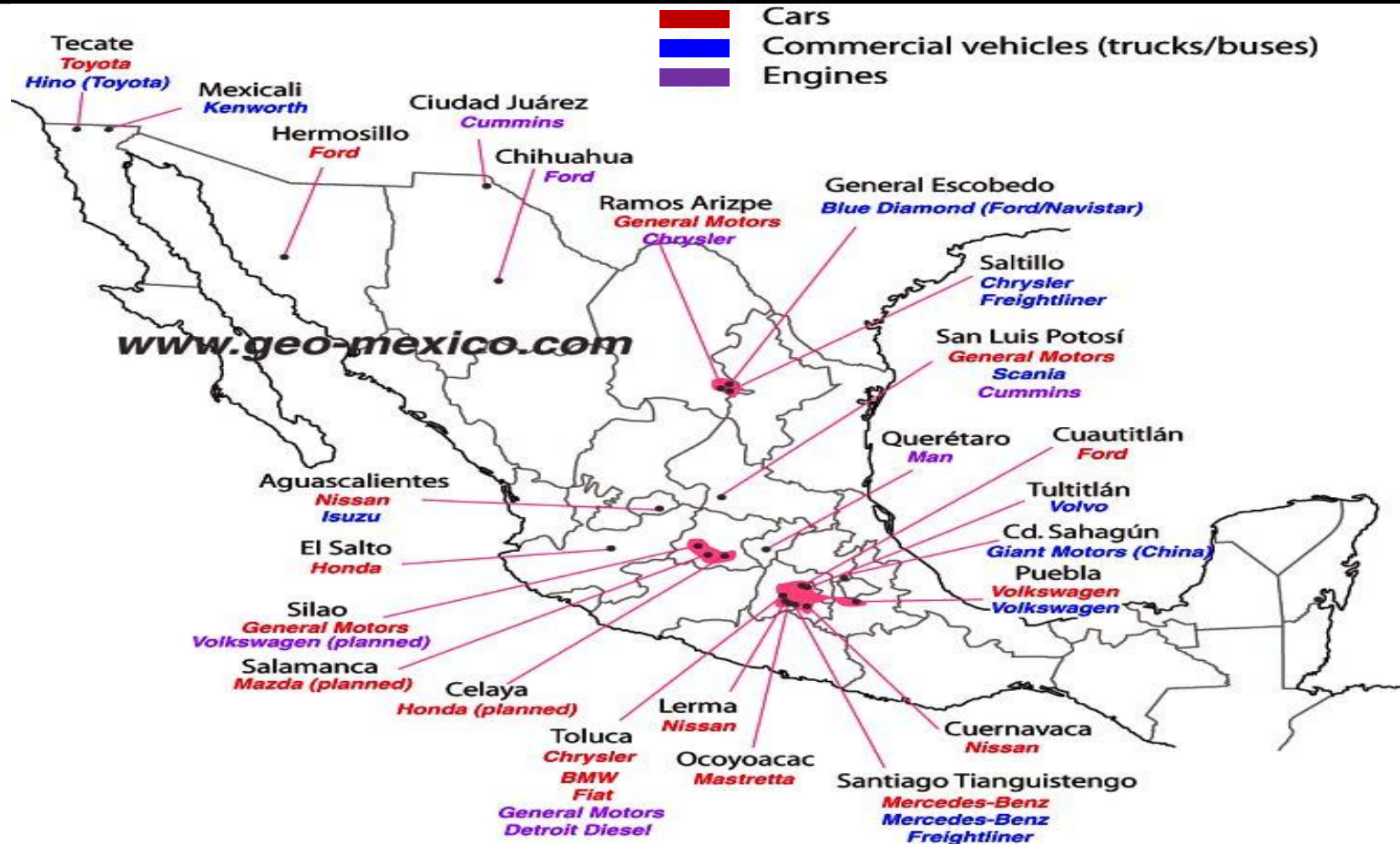
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WITHIN THE MEXICAN STATES / METROS



AUTOMOTIVE INDUSTRY WITHIN THE MEXICAN STATES / METROS



Sonora at a glance



Main industries



**Automotive • Aerospace • Metal Mechanic • Electronic Medical
Biotechnology • Mining • Agribusiness • IT • Renewable Energy**



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AUTOMOTIVE OPPORTUNITIES:



Ford Plant – Hermosillo



New \$1.5 Billion investment

Increase capacity to 500,000 vehicles per year

North America, South America, and Middle East Fusion (Summer 2012)

Fusion Hybrid

Lincoln MKZ

500,000 cars X \$25,000 = \$12.5 Billion in Revenue



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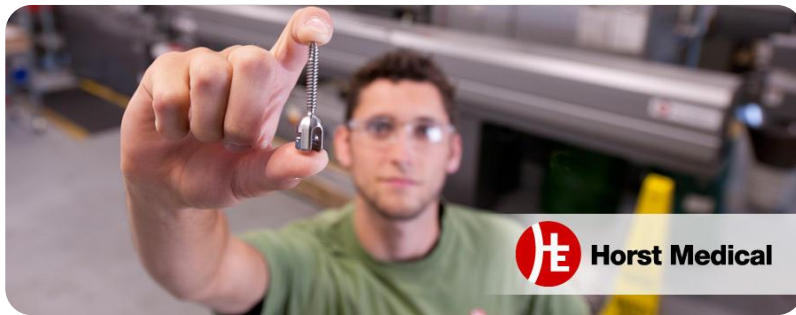
METAL STAMPING OPPORTUNITIES:



HQ in Connecticut

**2006 – Horst Engineering de Mexico
(Nogales, Sonora)**

2009 – Horst Medical is formed



HQ in Minnesota

**2011 – Incertec de Mexico
(Empalme, Sonora)**

Impact: 20% increased business

Pursuing Certificates for:

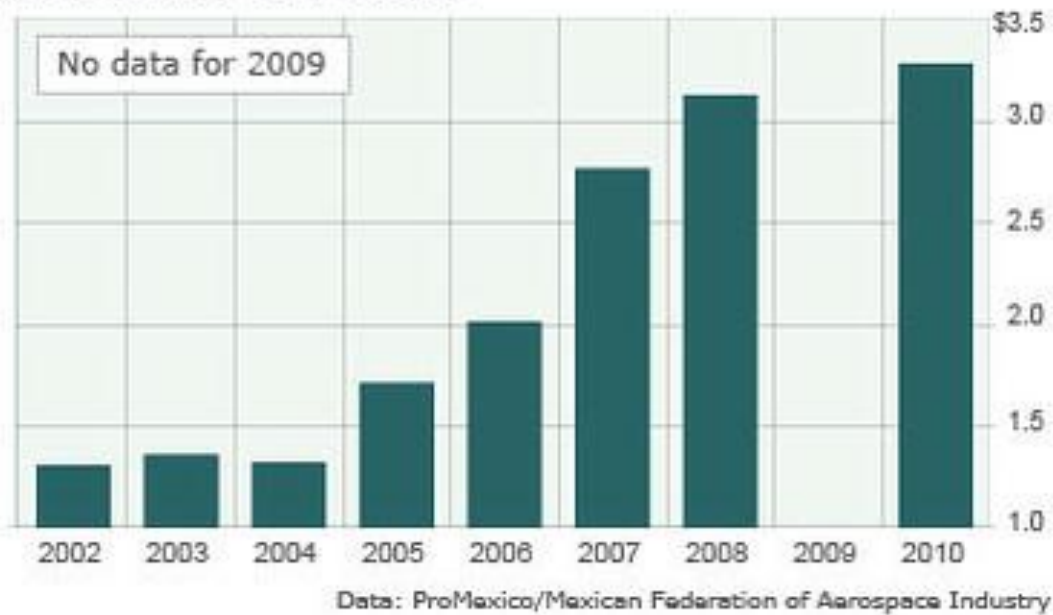
- ✓ **Bombardier**
- ✓ **Embraer**
- ✓ **Cessna**



AEROSPACE OPPORTUNITIES:

Precision Aerospace / *Precision Products de Mexico* (Phoenix, Arizona) (Guaymas, Sonora)

Mexican aircraft-related exports
In billions of U.S. dollars



RAW MATERIALS OPPORTUNITIES:



COPPER PROCUREMENT

- Copper is a key material for many companies in the Sonoran region
- Procurement Managers import copper pipes from China and Germany
- These imports have up to 90 days in lead time

Opportunities For:



FREEPORT-McMoRAN
COPPER & GOLD

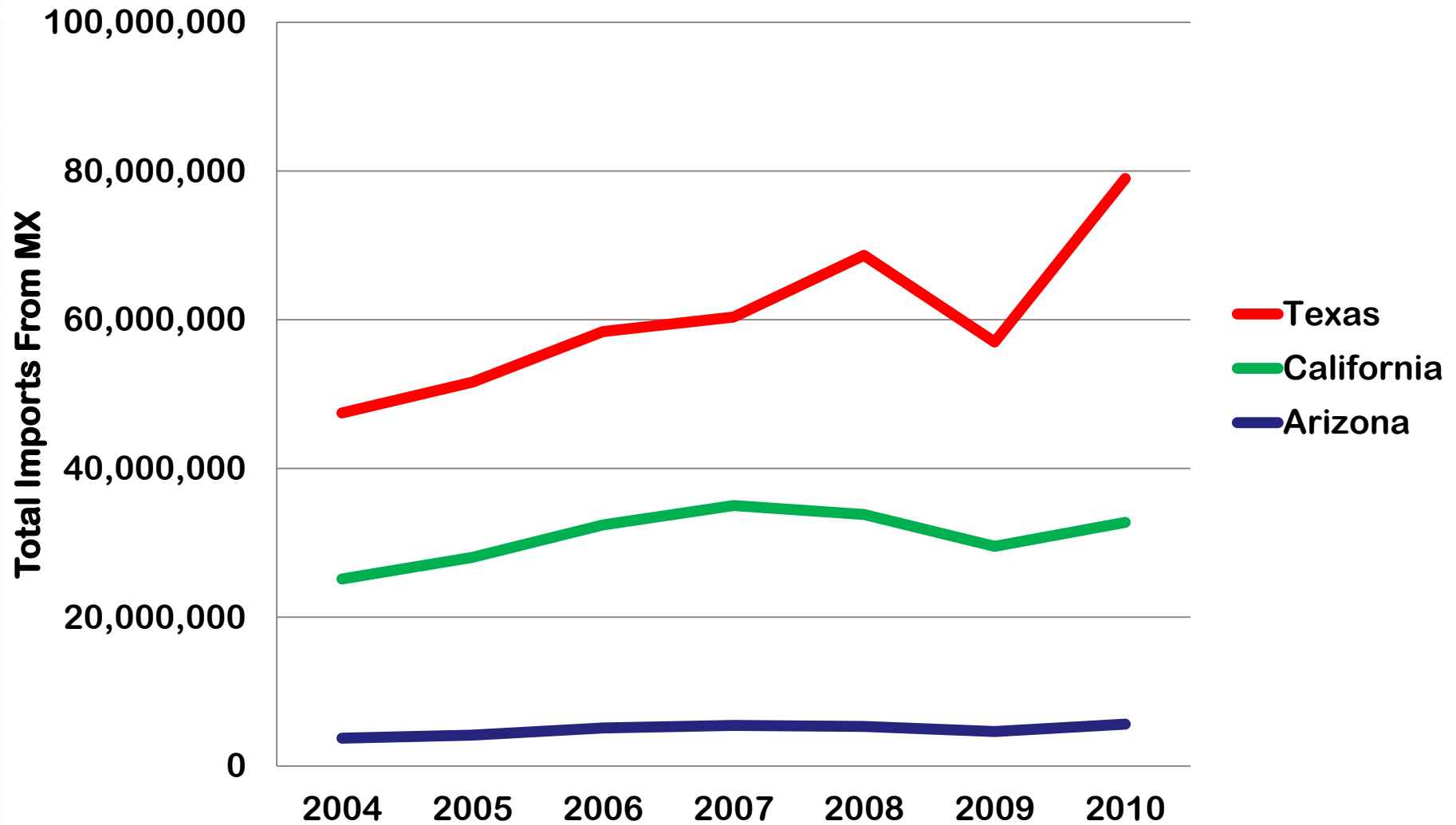


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SOME INTEGRATION MOVEMENTS



Imports from MX in US\$ 2004-2010



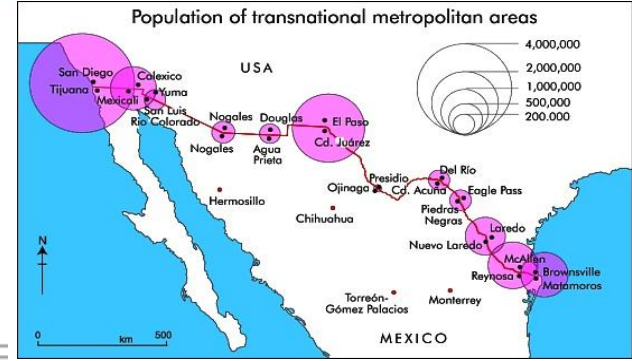
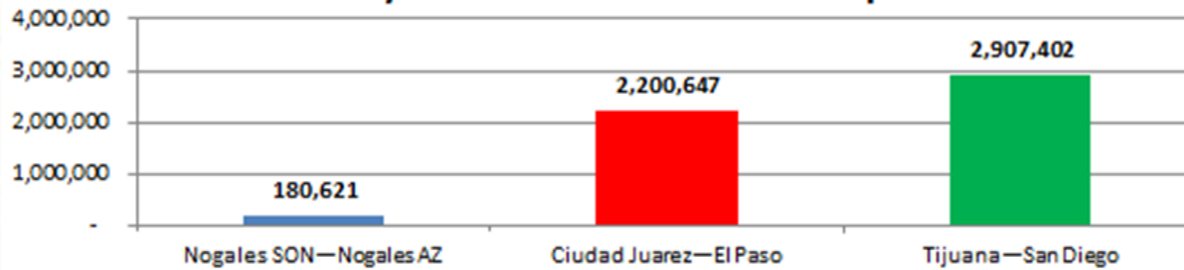
Source: U.S. Department of Transportation, Bureau of Transportation Statistics, Transborder Surface Freight Data.



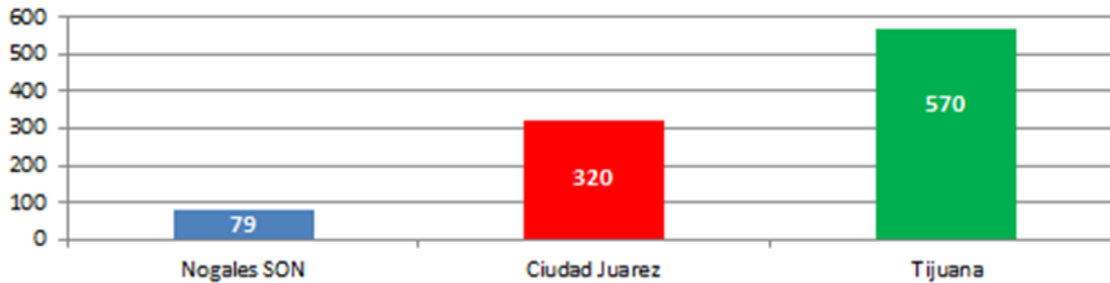
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COMPARISON WITH OTHER BORDER STATES

MX / US Border Metro Total Population



of Maquiladoras



Avg. Operator Wage MX (in US\$ per hour)

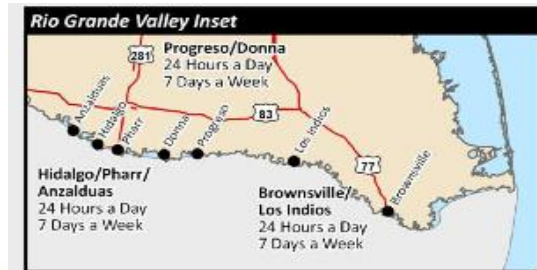


Source: Team Nafta and US Census



TEXAS CASE

- CENTRALLY LOCATED
- 23 TOLLED PORTS OF ENTRY
- PORTS SUPPORTED BY PRIVATE AND PUBLIC FUNDS
- FUNDS USED TO REINFORCE INFRASTRUCTURE OF BRIDGES AND SURROUNDING PORT AREAS
- PARTNERSHIPS BETWEEN TEXAS AND MEXICO CITIES





CALIFORNIA CASE

BAJA CALIFORNIA — SAN DIEGO

- LARGEST POPULATION OF MAQUILADORAS
- BAJA IS SEEKING TO INCREASE ITS COMPETITIVENESS THROUGH SOUTHERN CALIFORNIA SUPPLIERS
- SAN DIEGO BORDER TRADE OFFICE ASSISTS TO FACILITATE NEW EXPORT RELATIONSHIPS

OTAY MESA EAST PORT OF ENTRY

- NEW INNOVATIVE TOLLED PORT OF ENTRY
- ESTIMATED COMPLETION IN 2015





GROWTH OPPORTUNITIES:

- **REDUCE BARRIERS DURING THE BORDER CROSSING PROCESSES**
 - **REINVESTMENT IN PORTS**
- **EMPOWER SMES TO DEVELOP SUPPLY RELATIONSHIPS WITH SONORA**
 - **ATMA's 77 SMES – ONLY 10% EXPORTS**
- **SUPPORT INDUSTRIAL PARKS TO CULTIVATE TIER 2-3 SUPPLIERS**
- **CREATE FORUM FOR AZ-MEX COOPERATION AMONG ECONOMIC DEVELOPMENT INSTITUTIONS**
- **PARTNERSHIPS WITH UNIVERSITIES**

THANK YOU FOR YOUR TIME

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Q & A

